CHAPTER 1
Perspectives on Retailing

CHAPTER 2
Retail Strategic Planning and Operations Management

Thomson Learning™
Learning Objectives
After reading this chapter, you should be able to:

1. Explain what retailing is.
2. Explain why retailing is undergoing so much change today.
3. Describe the five methods used to categorize retailers.
4. Understand what is involved in a retail career and be able to list the prerequisites necessary for success in retailing.
5. Be able to explain the different methods for the study and practice of retailing.

Overview
In this chapter, we acquaint you with the nature and scope of retailing. We present retailing as a major economic force in the United States and as a significant area for career opportunities. Finally, we introduce the approach to be used throughout this text as you study and learn about the operation of retail firms.
LO 1

What is retailing?

WHAT IS RETAILING?

It is easy to take for granted the impact retailing has on our lifestyle. In fact, retailing, which is responsible for matching the individual demands of the consumer with vast quantities of supplies produced by a huge range of manufacturers, has made a significant contribution to the economic prosperity that we enjoy so much. The nations that have enjoyed the greatest economic and social progress have been those with a strong retail sector. In 2003, Fortune magazine’s poll of 1,000 CEOs (chief executive officers) found Wal-Mart was the nation’s most-admired company, marking the first time the world’s biggest corporation was also its most respected. One of the factors cited in choosing Wal-Mart was that economists credited the retailer’s EDLP (everyday low prices) policy with contributing to everyday low inflation, meaning that all Americans benefit from Wal-Mart’s efficiency. More than one-eighth of U.S. productivity growth between 1995 and 1999 was found to be the result of Wal-Mart’s drive for low prices. Warren Buffett, the famous investor, noted that the retailer has “contributed more to the financial well-being of the American public than any institution I can think of.” His own back-of-the-envelope calculation of this contribution: $10 billion a year. Wal-Mart’s effect has been evident in other countries where it has a significant presence. In Canada, where the chain has 213 stores, footwear and clothing prices actually dropped by almost a full percent in 2002.

Retailers that enter foreign markets and understand the local cultures and customs will be higher-profit performers than those who do not understand the local cultures and customs.

On the other hand, nations that have failed to perform the critical role of retailing as it should be performed will ultimately have to adopt a strong retail sector to improve their populations’ well-being. One of the reasons the Eastern European countries experienced such a slow rate of economic growth when they were under Communist control was their lack of a retail structure. Interestingly, when Amway, Toys “R” Us, Pizza Hut, and McDonald’s opened for business in these countries, they became instant successes. The joy and excitement these new forms of retailing provided the citizens was amazing, which illustrates very well the value people of all cultures place on retailing that is responsive to their needs and wants.

Retailing, as we use the term in this text, consists of the final activities and steps needed to place a product in the hands of the consumer or to provide services to the consumer. In fact, retailing is actually the last step in a supply chain that may stretch from Europe or Asia to your hometown. Therefore, any firm that sells a product or provides a service to the final consumer is performing the retailing function. Regardless of whether the firm sells to the consumer in a store, through the mail, over the telephone, through the Internet, door to door, or through a vending machine, the firm is involved in retailing.
Many observers of the American business scene believe that retailing is the most “staid and stable” sector of business. While this observation may have been true in the past, quite the contrary is occurring today. Retailing, which accounts for just under 20 percent of the worldwide labor force and includes every living individual as a customer, is the largest single industry in most nations and is currently undergoing changes in many exciting ways. In fact, these changes are so fascinating that each chapter of this text will have a What’s New box just to discuss these topics. This box will address the new practices, skills, and strategies that successful retailers are using to stay ahead of the competition. Sometimes, these new practices are the result of unfortunate circumstances. This is illustrated in this chapter’s box detailing how, as a result of the September 11 attacks, retailers are paying greater attention to the security of their customers and employees.

Currently, there are approximately 3.1 million retail establishments in the United States with total annual sales of nearly $3.3 trillion, or nearly $11,000 per capita. There are 30 retail establishments for every 1,000 households. This equates to average annual sales of nearly $1 million per store. Most retailers, however, are smaller, and many have annual sales of less than $500,000 annually.

These figures don’t reflect the changes that have occurred behind these dollar amounts. The number of new retail enterprises that were developed in the last two decades is truly amazing. Most of these new businesses have actually been new institutional forms, such as electronic retailing, warehouse retailing, supercenters, and home delivery of both fast food and groceries. Change is truly the driving force behind retailing. Let’s explore some of the trends that are affecting retailing today.

E-TAILING

The great unknown for retail managers is what the ultimate role of online shopping will be. Most observers recognize the value of online shopping for travel, books, clothing, cosmetics, and music. But it is still unclear if online shopping will reach its projections for “everyday” shopping. Probably the best example of this dilemma is online grocery shopping. E-grocers are considered to be an important factor in the survival of the supermarket industry as it battles the inroads of the discounters’ supercenters. This format first sprang up during the Internet boom in the late 1990s and promised to revolutionize the way consumers shopped for milk, toilet paper, and frozen pizzas. Instead, most went bankrupt. Webvan.com, for example, lost a billion dollars in just over two years when its extremely expensive, highly automated warehouses failed to generate a significant sales volume.

But today, with retooled business models, Internet supermarkets are back and growing. In fact, more groceries were sold online in 2003 ($1.6 billion) to higher-volume customers (average online bill of $125 versus $25 per store visit) than during the peak of the Internet bubble. No wonder that famous dot-com bombs from the past, such as Peapod.com and YourGrocer.com, were reborn with new investors. In addition, large grocery chains, such as Albertson’s, Safeway, and Vons, have reentered the battle. These new e-tailers are seeking to avoid the mistakes of their predecessors by keeping down their expenses and targeting only affluent neighborhoods. Also, instead of building their own warehouses, many have teamed up with existing retail chains. They also put limits on when and where they deliver—and are charg-
Prior to September 11, 2001, most retailers’ only security concerns pertained to random acts of vandalism, such as graffiti, and adequate lighting of parking lots, thereby protecting employees and customers.

Today, all that is changed. Both federal and state agencies have put retailers on alert for terrorist activities. At a recent seminar attended by one of the authors, it was pointed out that while federal buildings and airports are generally safe, the “soft” targets available to terrorists today are schools and retail locations. After all, these are public places with high traffic levels and few safety procedures capable of preventing a well-planned attack.

While most malls and large retail stores employ their own security teams and use video cameras, security personnel are generally afraid to cross the line and offend customers. Therefore, it is important that American retailers introduce two new realities to their customers:

Reality #1: It is very hard to protect public places. Doing so is costly and disruptive and creates new vulnerabilities.

Reality #2: It is a mistake to create expectations about invulnerability that cannot be fulfilled. Security forces can never make all shopping locations invulnerable to attack. For example, today there is justification to take extraordinary security measures at airports to keep weapons off airplanes. What we don’t have is complete safety at every spot at an airport. After all, the airport terminal itself is public space. Outside of the screening points, airports are no safer and no more dangerous than most other public spaces.

Where do we draw the line? The government has publicized possible terrorist threats to all high-traffic areas around the country. Can we protect them all? And would even extreme measures stop attackers from taking innocent lives? A determined killer will always find a target.

The real issue today is not whether we can increase security for consumers in our stores. If we are willing to make the necessary investment and accept the added inconvenience, we can certainly make it more difficult (but not necessarily impossible) to carry out an act of violence inside our stores. The real question is: How can we best allocate limited resources to reduce dangers to public safety overall and still protect the shoppers’ rights? For example, do Americans want metal detectors at malls and stores? Retailers can on a random basis deploy additional police without pretending to provide full coverage. Retailers can deploy additional surveillance cameras. However, there is no security device that can x-ray people’s inner feelings to identify possible terrorists. Until that happens, retailers and their customers will have to get used to shopping in a new environment that both they and the retailers may not like.
Some claim that America’s fixation with low prices began after World War II when fair trade laws, which allowed the manufacturer to set a price that no retailer was allowed to sell below, paved the way for America’s first discounter, E. J. Korvette. Actually, this revolution more than likely began with the birth of Wal-Mart in Rogers, Arkansas, in 1962. At the time, there were 41 publicly held discount stores and another two dozen privately owned chains already in business. What Sam Walton did that forever changed the face of retailing was to realize before everybody else that most of any product’s cost gets added after the item is produced and moves from the factory to the retailer’s shelf and finally to the consumer. As a result, Walton began enlisting suppliers to help him reduce these costs and increase the efficiency of the product’s movement. Also, Walton, who had never operated a computer in his life, made a major commitment in the 1980s to computerizing Wal-Mart as a means to reduce these expenses. As a result of the introduction of the computer to retail management, Wal-Mart’s selling, general, and administrative costs as a percentage of sales fell to less than 16 percent, while all of its competitors’ operating expenses were still 3 to 5 percent higher. Simply put, Wal-Mart became the world’s largest retailer by relentlessly cutting unnecessary costs and demanding that their suppliers do the same. Those who claim that Wal-Mart is obsessed with its bottom line (profits) miss the point: Wal-Mart is obsessed with its top line (sales), which it grows by focusing on the consumer’s bottom line.

Retailers that outperform their competition in controlling costs incurred after the merchandise is acquired will be higher-profit performers.
“Bricks & mortar” retailers, who achieve their sales in physical buildings as opposed to online, aren’t the only retailers to improve their efficiency by using the computer. As our Service Retailing box points out, service retailers are now using the computer to make better pricing decisions.

DEMографIC SHIFTS

Other significant changes in retailing over the past decade have resulted from changing demographic factors, such as the fluctuating birth rate, the growing importance of Generation Y (those born between 1978 and 1994) consumers, the fact that Generation Xers are now middle-aged and that baby boomers are nearing retirement age, and the increasing number of immigrants. Many people simply failed to realize how these factors, which had profound effects on our society, could also impact retailing. For example, once highly successful retailers like McDonald’s are now marginalized because they clearly failed to see the demise of the mass market and the growth of rapidly fragmenting markets.11 Consider how America’s recent immigrants have made once-exotic foods like sushi and burritos everyday options. Also, quick meals of all sorts can now be found in supermarkets, convenience stores, even vending machines. Still, as our Global Retailing box points out, even supermarkets, which were long thought to be the only retailer capable of catering to all markets, must be aware of the effect these demographic changes have on their business.

Successful retailers must become more service-oriented, offering better value in price and quality; more promotion-oriented; and better attuned to their customers’ needs. For example, one of the reasons that Lowe’s is threatening Home Depot’s dominance in the DIY (do-it-yourself) market is Lowe’s awareness of its core customer—the female, who accounts for 60 percent of all sales and influences other sales.

Also, with population growth slowing, retailers are no longer able to sustain their long-term profit projections just by building new stores and gaining additional

Wal-Mart, the world’s largest retailer, is also the world’s leader in controlling selling, general, and administrative expenses. This is one of the keys to Wal-Mart’s high profit performance.
While most “bricks & mortar” retailers got savvy about using the computer to cut costs, few were as fast as their service counterparts in figuring how much money they were losing with “old-fashioned” pricing strategies. Lacking detailed information about market demand and their own available supplies, retailers routinely overpriced some items and underpriced others.

This changed in the late 1980s when the airlines started using sophisticated computer programs to balance supply with demand. As a result, it is not uncommon for airline passengers, even those seated next to each other, to pay different prices for the same trip. Yet this sophistication didn’t move beyond the airlines until their travel partners, hotels, began a similar system in the mid-1990s. Today, almost every service retailer has adopted much more enlightened pricing strategies.

Service products are vastly different from physical goods, since they come into existence at the same time they are bought and consumed. They are composed of intangible elements that are inseparable, they usually involve customer participation in some important way, they cannot be sold in the sense of ownership transfer, and they have no title. Thus, service retailing consists of the sale or rent of an intangible activity that usually cannot be stored or transported, but provides the user some degree of satisfaction even if it can’t be owned.

One of your favorite service retailers using a computer to set prices may be your local golf course. Just as with airline passengers paying different prices for the same trip, golfers in the same foursome may pay different rates. Recently one of our colleagues made plans to play one of the most famous public courses in Texas. She booked a twosome for 9 A.M. on Saturday ten days in advance and agreed to a $100-per-person greens fee. When she showed up, she found out that a third person had been added to her group. After all, with a foursome in front and in back of her, the golf course had some excess capacity. Therefore, the golf pro added a third person to her group, and since he had made his reservation only the night before over the Internet, his greens fee was only $75.

Thus, just as airlines and hotels adjust prices from hour to hour to get a maximum yield from their fixed capacity (remember, there really wasn’t much cost for that third golfer), some golf pros now preview demand for day, evening, and weekend tee times and adjust prices accordingly. Our colleague used such an Internet connection to play the course and the other major courses while on vacation in Phoenix a month later. These courses offered different prices for the next day’s play depending on demand. In fact, two of the courses let you bid on tee times. It should not be surprising that future transactions with many service retailers, with their “perishable” wares, may soon resemble electronic equities trading with bid and ask prices and frequent price changes.

**same-store sales**

Compares an individual store’s sales to its sales for the same month in the previous year. (Same-store sales is a retailing term that compares an individual store’s sales to its sales for the same month in the previous year. Market share refers to a retailer’s sales as a percentage of total market sales for the product line or service category under consideration.)

As a result, today’s retail firms are run by professionals who are able to look at the changing environment and see opportunities, exert enormous buying power over manufacturers, and anticipate future changes before they impact the market, rather than just react to these changes after they occur. However, not even these experts always agree about what the future will bring.
STORE SIZE

Further insight about the changes occurring in retailing today can be obtained by looking at the average store size for various retail categories. The largest increase in store size in recent years has been in drugstores, a reflection of the rapid growth of chains such as Walgreens and Eckerd. In addition to drugs, these stores sell a variety of general merchandise; in fact, the majority of their sales now come from many different unrelated items, including food products, convenience goods, greeting cards, seasonal items such as gardening supplies and Christmas decorations, and even clothing. This phenomenon is referred to as scrambled merchandising. For example, convenience stores are said to be using a scrambled merchandising approach when they sell gasoline, bread, milk, beer, cigarettes, magazines, and fast food. The same can be said of drugstores that have a couple aisles of groceries as well as of supermarkets that sell clothing and gasoline. This scrambling of merchandise also applies to services; for instance, many supermarkets now offer banking and dry cleaning.

There has also been an increase in the average store size by the more traditional general merchandise stores, which in many cases are combining with supermarkets to form supercenters. In contrast, some grocery stores have been shrinking in both size and the range of merchandise carried, reflecting their targeted customer’s increased desire for convenience. Likewise, the average department store is now smaller; many of these retailers are closing their downtown locations, which often were their largest stores, because the downtown areas of many cities have become “ghost towns.” Thus, retailers today are seeing a trend emerge: Retail stores are now either larger or smaller than their counterparts from the past. In fact, nowhere is this fact of retailing better described than with “category killers.” The category killer got its name from its marketing strategy: Carry a large amount of merchandise in a single category at such low prices that it makes it impossible for customers to walk out without purchasing what they need, thus “killing” the competition.

scrambled merchandising

Exists when a retailer handles many different and unrelated items.

category killer

Is a retailer that carries such a large amount of merchandise in a single category at such good prices that it makes it impossible for the customers to walk out without purchasing what they need, thus killing the competition.

Retailers struggling to remain competitive and profitable have turned to scrambled merchandising where they stock their shelves with whatever sells, even if the products offered are unrelated.
Toys "R" Us, which began operations in 1948, has the distinction of being the first category killer. Well-known category killers include Best Buy, Home Depot, Blockbuster Video, Circuit City, Office Depot, CompUSA, PetsMart, and Bed Bath & Beyond. Category killers have diverted business away from traditional wholesale supply houses. For example, Home Depot appeals to the professional contractor and Office Depot to the business owner who traditionally purchased supplies from hardware wholesalers and office supply and equipment wholesalers.

However, many other category killers from the past decade have suffered financial reverses. These specialty superstore chains failed because they had a poor strategy, weak execution, or too much “me too” competition. In addition, the continued rapid growth of general merchandise discounter, such as Wal-Mart and Target, has contributed to their demise because these discounter can increase store space for toys during the Christmas season and decrease it during the slower toy seasons, such as summer, when they expand the space for lawn care products. Such actions enable the discounter to reduce costs and offer lower prices, whereas the “killer” must carry the full line year round. Likewise, many other time-strapped consumers started taking their business away from the “killers” by going to the Internet or...
shopping at smaller, more convenient outlets closer to home, even if prices were higher.

Success in retailing depends on a retail manager's ability to properly interpret what changes are occurring and what these changes mean to the store's customers, and building a strategy to respond to those changes. Therein lies the excitement and challenge of retailing as a career. After all, 45 years ago, the Wal-Mart strategy of building a major enterprise in small-town America and offering “everyday low prices” was probably considered foolhardy. This was a time when retailers thought growth could be achieved only by competing in the big cities where large population bases were located. Yet someone who purchased 100 shares of Wal-Mart when it went public on October 1, 1970, for $16.50 a share would by 2003 be holding more than 204,800 shares worth nearly $12 million, not counting cash dividends, which could have been reinvested. (This is the reason that the Waltons are the richest family in America—Sam Walton invested everything he had in this stock. Anyone else who invested a similar amount of money in WMT stock in 1970 would be equally wealthy.)

Of course, the future can never be predicted with certainty. This text, however, attempts to provide you with the tools to meet these upcoming challenges and be a success in retailing. The answer to what the future will bring lies in the disquieting fact that retailers do not operate in a static, closed environment; they operate in a continuously changing and competitive environment. These changes are discussed in greater detail in Chapters 3 through 6. For now, we will concentrate on the following environmental elements: the behavior of consumers, the behavior of competition, the behavior of supply chain members (the manufacturers and wholesalers that the retailer buys from), the legal system, the state of technology, and the socioeconomic nature of society. Exhibit 1.1 depicts these elements.
A final comment about the changing face of retailing: Remember, business entrepreneurs are not obliged to conform to old legal and social standards. They are free to forge new retail approaches that capitalize on emerging market opportunities. In retailing this is all the more evident when we consider fashion trends; what in the past would have lasted for years, now may last only a few months.

**CATEGORIZING RETAILERS**

Categorizing retailers can help the reader understand competition and the changes that occur in retailing. There is no single acceptable method of classifying retail competitors, although many classification schemes have been proposed. The five most popular schemes used today are described in Exhibit 1.2.

**CENSUS BUREAU**

The U.S. Bureau of the Census, for purposes of conducting the Census of Retail Trade, classifies all retailers using three-digit North American Industry Classification System (NAICS) codes. The Web site for locating these codes is http://www.census.gov/epcd/www/naics.html. Some examples of these NAICS codes are shown in Exhibit 1.3.

As a rule, these three-digit NAICS codes are too broad to be of much use to the retail analyst. The four-digit NAICS codes provide much more information on the structure of retail competition and are easier to work with.

For example, NAICS 454 is nonstore retailing, which consists of approximately 45,000 retailers. Within this are NAICS 4541, which consists of 10,000 electronic shopping and mail-order houses (Spiegel and L.L. Bean, for example); NAICS 4542, consisting of 7,000 vending machine operators; NAICS 4543, consisting of 27,000 direct-selling establishments, and so on.

In almost all instances, the NAICS code reflects the type of merchandise the retailer sells. The major portion of a retailer’s competition comes from other retailers in its NAICS category. General merchandise stores (NAICS 452) are the exception to this rule. General merchandise stores, due to the variety of merchandise carried, compete with retailers in most other NAICS categories. For example, department stores compete for clothing sales with specialty apparel stores, such as The Gap and The Limited; mail-order retailers, such as L.L. Bean; or off-priced stores, such as T.J. Maxx or Ross Dress for Less. In fact, most retailers must compete to a considerable extent with general merchandise stores, because these larger stores usually handle many of the same types of merchandise that smaller, more lim-
ited retailers sell. In a very broad sense, all retailers compete with each other since they all vie for the same limited consumer dollars.

Another shortcoming of using the NAICS codes is that they do not reflect all retail activity. The Census Bureau definition equates retailing only with the sale of “tangible” goods or merchandise. However, by our definition, selling of services to the final consumer is also retailing. This suggests that retailing can also be applied to businesses such as barber/beauty shops, health clubs, dry cleaners, banks, insurance agencies, funeral homes, movie theaters, amusement parks, maid services, medical and dental clinics, one-hour photo labs, and so on. For instance, NAICS 772, which is not classified under retail trade, consists of almost 490,000 eating and drinking establishments. Remember, any time the consumer spends money, whether on tangibles (merchandise) or intangibles (services), retailing has occurred.

**NUMBER OF OUTLETS**

Another method of classifying retailers is by the number of outlets each firm operates. Generally, retailers with several units are a stronger competitive threat because they can spread many fixed costs, such as advertising and top management salaries, over a larger number of stores and can achieve economies in purchasing. However, single-unit retailers, such as your neighborhood IGA grocery store, do have several

<table>
<thead>
<tr>
<th>Code</th>
<th>Type of Business</th>
<th>Number of Establishments</th>
<th>Percent of Total</th>
<th>Sales ($1,000)</th>
<th>Percent of Total</th>
<th>Number of Employees</th>
<th>Percent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>44–45</td>
<td>Retail trade</td>
<td>1,118,447</td>
<td>100</td>
<td>$2,460,886,012</td>
<td>100</td>
<td>13,991,103</td>
<td>100</td>
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<td>441</td>
<td>Motor vehicle and parts dealers</td>
<td>122,633</td>
<td>11</td>
<td>$645,367,776</td>
<td>6</td>
<td>1,718,963</td>
<td>12</td>
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<tr>
<td>442</td>
<td>Furniture and home furnishings</td>
<td>64,725</td>
<td>6</td>
<td>$71,690,873</td>
<td>3</td>
<td>482,845</td>
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<tr>
<td>443/4431</td>
<td>Electronics and appliance stores</td>
<td>43,373</td>
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<td>$68,554,231</td>
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<td>444</td>
<td>Building material and garden equipment and supplies dealers</td>
<td>93,117</td>
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<td>1,117,912</td>
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<td>445</td>
<td>Food and beverage stores</td>
<td>148,528</td>
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<td>$401,764,499</td>
<td>16</td>
<td>2,893,074</td>
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<td>446</td>
<td>Health and personal care stores</td>
<td>82,941</td>
<td>7</td>
<td>$117,770,863</td>
<td>5</td>
<td>903,694</td>
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<td>447/4471</td>
<td>Gasoline stations</td>
<td>126,889</td>
<td>11</td>
<td>$198,165,786</td>
<td>8</td>
<td>922,062</td>
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<td>448</td>
<td>Clothing and clothing accessories</td>
<td>156,601</td>
<td>14</td>
<td>$136,397,645</td>
<td>6</td>
<td>1,280,153</td>
<td>9</td>
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<tr>
<td>451</td>
<td>Sporting goods, hobby, book, and music stores</td>
<td>69,145</td>
<td>6</td>
<td>$62,010,926</td>
<td>3</td>
<td>560,839</td>
<td>4</td>
</tr>
<tr>
<td>452</td>
<td>General merchandise stores</td>
<td>36,171</td>
<td>3</td>
<td>$330,444,460</td>
<td>13</td>
<td>2,507,540</td>
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<tr>
<td>453</td>
<td>Miscellaneous store retailers</td>
<td>129,838</td>
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<td>$78,109,161</td>
<td>3</td>
<td>752,986</td>
<td>5</td>
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<tr>
<td>454</td>
<td>Nonstore retailers</td>
<td>4,962</td>
<td>4</td>
<td>$123,106,651</td>
<td>5</td>
<td>505,993</td>
<td>4</td>
</tr>
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</table>
advantages. They are generally owner- and family-operated and tend to have harder-working, more motivated employees. Also, they can focus all their efforts on one trade area and tailor their merchandise to that area while gaining buying efficiencies by being a member of the IGA group. In the past such stores were usually able to spot emerging customer desires sooner and respond to them faster than the larger multiunit operations.

Any retail organization that operates more than one unit is technically a chain, but this is really not a very practical definition. The Census Bureau classifies chain stores into two size categories: 2 to 10 stores and 11 or more. We mean 11 or more units when we use the term chain stores.

Exhibit 1.4 shows sales by chain stores as a percentage of total U.S. sales for some of the different merchandise lines. The statistics in Exhibit 1.4 reveal that chain stores account for 41 percent of all retail sales (including 99 percent of all department store sales and 63 percent of all grocery store sales). Though large chain operations account for 57 percent of nondurable goods sales, they account for only 16 percent of durable goods sales, such as autos and furniture.

Not all chain operations enjoy the same advantages. Small chains are local and may enjoy some economies in buying and in having the merchandise tailored to their market needs. Large chains are generally regional or national and can take full advantage of the economies of scale that centralized buying, accounting, training, and information systems and a standard stock list can achieve. A standard stock list requires that all stores in a retail chain stock the same merchandise. Other national chains such as Sears, recognizing the variations of regional tastes, use the optional stock list approach, which gives each store the flexibility to adjust its merchandise mix to local tastes and demands. This point is driven home by the name of a retail consulting firm composed of former Wal-Mart employees—4 R’s of Retailing, Inc. (Right Merchandise, Right Amount, Right Place, and Right Time). After all, as one Sears executive told the authors, stores in the Rio Grande Valley in Texas sell primarily smalls and mediums in men’s shirts, while in Minnesota the chain sells a preponderance of larger sizes.

<table>
<thead>
<tr>
<th>Kind of Business</th>
<th>Percentage of Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Durable goods stores</td>
<td>16</td>
</tr>
<tr>
<td>Restaurants</td>
<td>23</td>
</tr>
<tr>
<td>Auto and home supply stores</td>
<td>37</td>
</tr>
<tr>
<td>Total all retail businesses</td>
<td>41</td>
</tr>
<tr>
<td>Nondurable goods stores</td>
<td>57</td>
</tr>
<tr>
<td>Women’s clothing specialty stores</td>
<td>62</td>
</tr>
<tr>
<td>Grocery stores</td>
<td>63</td>
</tr>
<tr>
<td>Drugstores</td>
<td>65</td>
</tr>
<tr>
<td>Shoe stores</td>
<td>68</td>
</tr>
<tr>
<td>Family clothing stores</td>
<td>80</td>
</tr>
<tr>
<td>General merchandise stores</td>
<td>96</td>
</tr>
<tr>
<td>Department stores</td>
<td>99</td>
</tr>
</tbody>
</table>
Both types of stock lists provide scale advantages in other retailing activities. For example, promotional savings occur when more than one store operates in an area and can share advertising, even while tailoring specific merchandise to specific stores.

Finally, chain stores have long been aware of the benefits of taking a leadership role in the marketing supply chain. When a chain store retailer is able to achieve critical mass in purchases, it can get other supply chain members—wholesalers, brokers, and manufacturers—to engage in activities they might not otherwise engage in, and it is then referred to as the channel captain. For example, the chain store retailer might get other supply chain members to include direct-to-store deliveries, increased promotional allowances, extended payment terms, or special package sizes, all of which help the retailer to operate more efficiently.

In recent years, chains (as will be discussed in greater detail in Chapter 4) have relied on their high level of consumer recognition to engage in private label branding. Private label branding, sometimes called store branding, is when a retailer develops its own brand name and contracts with a manufacturer to produce the product with the retailer’s brand instead of buying a national brand with the manufacturer’s name on it. Today, the whole concept of private label has taken on a new dimension as retailers have made these items, while not nationally advertised, nationally promoted. These private labels are advertised in the newspaper as brands and are heavily promoted in stores via displays and signage.

In the past, private labels were inexpensive knockoffs of popular items. Today, though, some of the best retailers promote their private brands near the front and center of their stores. Retailers target these private labels, which have their own distinct personality, to specific markets and advertising them in their direct mail flyers or newspaper inserts.

Another reason why private labels are so popular with retailers is that the national brands, such as Liz Claiborne, Tommy Hilfiger, and Ralph Lauren, are now available in many different stores. Private labels, however, enable a retailer to provide unique merchandise, such as JCPenney’s Arizona jeans. Also important is the fact that a retailer’s private label brands can be much more lucrative. Manufacturers of brand names like Hilfiger and Lauren have to share the profits with the famous designer. Private labels allow the retailer to control the costs associated with developing, making, sourcing, and promoting the label. Some chains, such as Save-A-Lot, a unit of Supervalu, have dropped national brands like Fritos, Dr. Pepper, Pampers, and Coca-Cola and replaced them with their own brands: Cornitos, Dr. Pop, Waddles, and Bubba Cola. Small retailers, because of their lack of economies of scale, can’t use private labels unless they are part of a buying group.

The major shortcoming of using the number of outlets scheme for classifying retailers is that it addresses only those retailers operating in a traditional bricks & mortar space. This scheme thus ignores many nontraditional retailers such as catalog-only and e-tailers. How many outlets does Amazon.com have? One could argue that each new online computer is a potential retail outlet for the e-tailing giant.
Retailers can be classified in regard to their gross margin percent and rate of inventory turnover. The **gross margin percentage** shows how much gross margin (net sales minus the cost of goods sold) the retailer makes as a percentage of sales; this is also referred to as the gross margin return on sales. A 40 percent gross margin indicates that on each dollar of sales the retailer generates 40 cents in gross margin dollars. This gross margin will be used to pay the retailer's **operating expenses** (the expenses the retailer incurs in running the business other than the cost of the merchandise, e.g., rent, wages, utilities, depreciation, insurance, etc.). **Inventory turnover** refers to the number of times per year, on average, that a retailer sells its inventory. Thus an inventory turnover of 12 times indicates that, on average, the retailer turnover or sells its average inventory once a month. Likewise, an average inventory of $40,000 (retail) and annual sales of $240,000 means the retailer has turned over its inventory six times in one year ($240,000 divided by $40,000), or every two months.

**High-performance retailers**, those who produce financial results substantially superior to the industry average, have long recognized the relationship between gross margin percent, inventory turnover, and profit. One can classify retailers into four basic types by using the concepts of margin and turnover.

Typically, the **low-margin/low-turnover** retailer will not be able to generate sufficient profits to remain competitive and survive. Thus there are no good examples of successful retailers using this approach. On the other hand, the **low-margin/high-turnover** retailer is common in the United States. Perhaps the best examples of this retailer type are the discount department stores, the warehouse clubs, and the category killers. Amazon.com is probably the best-known example of low-margin/
high-turnover e-tailers. **High-margin/low-turnover** bricks & mortar retailers are also quite common in the United States. Furniture stores, TV and appliance stores, jewelry stores, gift shops, funeral homes, and most of the mom-and-pop stores located in small towns across the country are generally good examples of high-margin/low-turnover operations. Some clicks & mortar retailers, those who sell both online and in physical stores, that use this approach include Coach, and Sharper Image. Finally, some retailers find it possible to operate on both **high margin and high turnover**. As you might expect, this strategy can be very profitable. Probably the most popular examples are convenience food stores such as 7-Eleven, Circle K, or Quick Mart. However, because in the early stages of Internet commerce most retailers are trying to achieve a high turnover rate, there are no examples of e-tailers using this strategy.

As indicated in the preceding paragraph, the low-margin/low-turnover retailer is the least able of the four to withstand a competitive attack because this retailer is usually unprofitable or barely profitable, and when competition increases, profits are driven even lower. On the other hand, the high-margin/high-turnover retailer is in an excellent position to withstand and counter competitive threats because profit margins enable it to finance competitive price wars.

While the margin/turnover scheme provides an encompassing classification, it fails to capture the complete array of retailers operating in today’s marketplace. For example, service retailers and even some e-tailers, such as Priceline.com, carry no inventory. Thus, while this scheme provides a good way of analyzing retail competition, it neglects an important type of retailer.

**LOCATION**

Retailers have long been classified according to their location within a metropolitan area, be it the central business district, a mall or strip shopping center, or as a free-standing unit. These traditional locations will be discussed in greater detail in Chapter 7. However, the last decade saw a major change in the locations that retailers selected. Retailers are now aware that opportunities to improve financial performance can result not only from improving the sales per square foot of traditional sites but from operating in new nontraditional retail areas.

In the past, rather than expand into untested territories, many retailers simply renovated existing stores. Not today. Now retailers are reaching out for alternative retail sites. American retailers today are testing all types of nontraditional locations to expand their businesses. For example, to get more people to eat pizza when they rent videotapes, Pizza Hut introduced kiosks in video rental stores with direct phone lines to the local Pizza Hut. McDonald’s has tested locations in service stations along interstate highways. Loblaw, a Canadian grocer, has a women’s health club in its store near Toronto, and E*Trade, the online brokerage firm, is expanding its non-Internet presence with financial service centers in SuperTarget stores.
Also, given the high income levels of many airline travelers and the increasing amount of layover time between flights, many retailers have opened stores in airports, an idea that originated with and has long been used by European and Asian retailers. Airport retailers have been able to succeed by offering fast service, convenience, pleasant and clean environments, product variety and quality, entertainment, and competitive prices. Probably the most significant of the new nontraditional shopping locations today is the combination of entertainment and shopping, something that was unheard of a decade ago. Today locations such as Bass Pro hunting and fishing superstores have proven that the edges are blurring between shopping and entertainment for the masses.

Retailers do not want to miss out on urban or inner-city neighborhoods, which frequently have high minority populations. By 2007, it is projected that the spending power of Latinos and African-Americans will reach $927 billion and $853 billion, respectively. Dollar General, Jewel/Osco, Pathmark, Vons, and Sears are leaders in opening stores in urban locations.

The fast-food industry offers another example of nontraditional locations. KFC, Pizza Hut, and Taco Bell, which are all owned by Tricon Restaurants, are opening units near or within several large universities. All three fast-food chains are under one roof, which means employees and facilities (parking lots, restrooms, etc.) can be shared. Other fast-food operators have combined two or more franchisees together. One popular example is to combine a “meal” retailer (KFC) with a “dessert” operator (Haagen-Dazs).

Before ending our discussion of location, it is important to point out that this is an area of retailing that may undergo significant changes in the next decade. The Internet suggests that future locations may be as close as a consumer’s computer or cell phone. Some retailers are now able to operate out of their home office or car, equipped with a portable phone/fax.

**SIZE**

Many retail trade associations classify retailers by sales volume or number of employees. The reason for classifying by size is that the operating performance of retailers tends to vary according to size. That is, larger firms generally have lower operating costs per sales dollar than smaller firms do. For example, in its most recently available study, the National Retail Federation, which categorizes U.S. department stores into three volume groups, found that operating expenses were 38 percent for firms with sales between $5 and $20 million, 38 percent for stores in the $20 to $100 million range, and only 34 percent for larger operations. Most retail trade associations provide similar breakdowns on gross margins, net profits, net markups, sales per square foot of selling space, and so forth. Retailers will find this information meaningful when comparing their results against others of a similar size.

While size has been useful in the past, it is unclear whether the changes brought about by technology will make this obsolete. For example, imagine a fully automated retailer where, as a consumer places an order online, an automated stock-picking warehouse packages the selected merchandise and forwards it to the shipping area to be sent by UPS to the customer. Is Wal-Mart comparable to Amazon.com in terms of the number of employees needed?
Someone once said that “managing a retail store is an easy job. All you have to do is get consumers to visit your store [traffic] and then get these consumers to buy something [convert the traffic into customers] while operating at a lower cost than your competition [financial management].” Assuming this is correct, what type of person is needed to manage a retail store?

Economist Yes ___ No ___
Fashion expert Yes ___ No ___
Marketer Yes ___ No ___
Financial analyst Yes ___ No ___
Personnel manager Yes ___ No ___
Logistics manager Yes ___ No ___
Information systems analyst Yes ___ No ___
Accountant Yes ___ No ___

In reality, the answer is “yes” to all of these roles. A retail store manager needs to be knowledgeable in all these areas. As we have pointed out, few industries offer a more fast-paced, ever-changing environment where results are quickly seen on the bottom line than retailing. Few job opportunities will train you to become an expert not in just one field, but in all business disciplines. Retailing offers you the economist’s job of forecasting sales up to six months in advance, the fashion expert’s job of predicting consumer behavior and how it will affect future fashion trends, and the marketing manager’s job of determining how to promote, price, and display your merchandise. Further, it offers the financial analyst’s job of seeking to reduce the various expenses; the personnel manager’s job of hiring the right people, training them to perform their duties in an efficient manner, and developing their work schedules; the logistics manager’s job of arranging delivery of a “hot item”; the information systems analyst’s job of analyzing sales and other data to determine opportunities for improved management practices; and the accountant’s job of arriving at a profitable bottom line.

In summary, a retailer is like a master chef. Anyone can buy the ingredients, but only a master chef can make a masterpiece. Over the course of a career, you will have to deal with many issues. Among them are:

1. What product(s) or service(s) to offer
2. What group of customers to target
3. Where to locate the store
4. How to train and motivate your employees
5. What price level to use
6. What levels of customer service (store hours, credit, staffing, parking, etc.) to offer your customers
7. How to lay out the store
8. How to leverage the Internet to support your mission

If you consider that there are 10,000 possible combinations of products and at least ten possible combinations of the other seven issues, then there are more than ten billion different possible retailing formats. No wonder no other occupation offers the immediate opportunities and challenges that retailing does. Yet many students do not consider retailing when exploring career opportunities, or do not consider all
they can do in a retailing career. One of the greatest opportunities for people entering a retailing career is in online retailing, or e-tailing. One particular e-tailing field that is attracting many job seekers is the retailing of online information, which is providing unheralded opportunities to those seeking new challenges.

**COMMON QUESTIONS ABOUT A RETAILING CAREER**

As a student considering your future career, you may have questions about what opportunities a career in retailing may offer. To help you understand both the positive and negative sides of retailing, we will examine a few of the most frequently asked questions.

**Salary**

Are salaries in retailing competitive? Generally, starting salaries in executive training programs will be around $30,000 to $40,000 per year. That, however, is only the short-run perspective. In the long run, the retail manager or buyer is directly rewarded on individual performance. Entry-level retail managers or buyers who do exceptionally well can double or triple their incomes in three to five years and often within seven to ten years can have incomes twice those of classmates who chose other career fields. For example, it is not uncommon for a person within five to seven years of their college graduation in the supermarket industry to be made a store director or manager and earn a six-figure income. However, although there is tremendous upside potential with a long-term retailing career, in general retailers offer starting salaries 5 to 10 percent lower than what many other business fields offer.

**Career Progression**

Can one advance rapidly in retailing? Yes. Obviously, this answer depends on both the retail organization and the individual. A person capable of handling more responsibility than he or she is given can move up quickly. There is no standard career progression chart; the http://retail.careerbuilder.com Web site shows career opportunities available with many of the country’s leading retailers by geographic area as well as with other fine companies seeking college graduates.

**Geographic Mobility**

Does a retailing career allow one to live in the area of the country where one desires? Yes and no. Retailing exists in all geographic areas of the United States with sufficient population density. In the largest 300 cities in the United States, there will be sufficient employment and advancement opportunities in retailing. In order to progress rapidly, a person must often be willing and able to make several moves, even if the changes may not be attractive in terms of an individual’s lifestyle. Rapidly growing chain stores usually find it necessary to transfer individuals in order to open stores in new geographic areas. Fortunately, these transfers are generally coupled with promotions and salary adjustments. Finally, a person may stay in one geographic area if he or she desires. However, this may cost that person opportunities for advancement and salary increases.

**Women in Retailing**

Retailing has always been viewed as a good career for women. Today females constitute over 50 percent of all department store executives, making it the profession where women have attained the highest level of achievement. While most female
executives are at the lower levels of corporate management, breakthroughs into the retail presidential ranks have recently been made.

**Societal Perspective**

Professional merchants are considered respected and desirable members of their community, their state, and their nation. Leading retail executives are well-rounded individuals with a high social consciousness. Many of them serve on the boards of nonprofit organizations, as regents or trustees of universities, as active members of the local chambers of commerce, on school boards, and in other service-related activities. Retailers serve society not only outside their retailing career but also within it as well. For example, civic events such as holiday parades are often sponsored by local merchants. In addition, many retail firms support local groups and charities with cash, goods, and other goods and services as a means to “reinvest” some of their profits in the communities they serve.

Unfortunately, there are also unscrupulous, deceiving merchants that society can do without. This is true in all professions. There are unscrupulous lawyers, doctors, and police officers who give their professions a negative image at times. On the other hand, there are professional and ethical lawyers, doctors, and police officers who are good for their professions and for society as a whole. It is not the profession that dictates one’s contribution to society but the soundness of one’s ethical principles. Early in your career (preferably as a student), you need to develop a firm set of ethical principles to help guide you throughout your managerial career.

**PREREQUISITES FOR SUCCESS**

What is required for success as a retail manager? Let’s look at several factors that influence a retailer’s success.
Hard Work
Most successful retailers, like any successful individual, will respond to the preceding question with a simple “hard work.” Beginning retailers have long known that they earn their salary 9 to 5, Monday through Friday, but earn their advancement on weekends and after 5 o’clock. Also, many entrepreneurs with few resources and a great idea and the willingness to work hard have found their fortunes in retailing.

Analytical Skills
The retail manager must be able to solve problems through numerical analysis of facts and data in order to plan, manage, and control. The retail manager is a problem solver on a day-to-day basis. An understanding of the past and present performance of the store, merchandise lines, and departments is necessary. It is the analysis of these performance data that forms the basis of future actions in the retailing environment. Today’s retailer must be able to analyze all the financial data that are available before going to market. In addition, quantitative and qualitative analysis of customers, competitors, suppliers, and other constituencies often helps to identify emerging trends and innovations. Combined with current performance results and market knowledge, continual monitoring of these constituencies provides insight into past performance and alerts the retailer to new directions. Many retailers also get information from reading trade journals, such as Women’s Wear Daily, Progressive Grocer, or Chain Store Age, discuss current happenings with their buying office, visit markets, and even talk to their competitors as a means to keep up.

Creativity
The ability to generate and recognize novel ideas and solutions is known as creativity. A retail manager cannot operate a store totally by a set of preprogrammed equations and formulas. Because the competitive environment is constantly changing, there is no standard recipe for retailing. Therefore, retail executives need to be idea people as well as analysts. As pointed out in the chapter’s Inside Story box, success in retailing is the result of sensitive, perceptive decisions that require imaginative and innovative techniques.

Decisiveness
The ability to make rapid decisions and to render judgments, take action, and commit oneself to a course of action until completion is termed decisiveness. A retail manager must be an action person. Better decisions could probably be made if more time were taken to make them. However, more time is frequently unavailable because variables such as fashion trends and consumer desires change quickly. Thus, a manager must make decisions quickly, confidently, and correctly in order to be successful even if perfect information is not always available. For example, buyers often make purchase decisions six months to a year before the merchandise arrives at the store.

Flexibility
The ability to adjust to the ever-changing needs of the situation calls for flexibility. The retail manager must have the willingness and enthusiasm to do whatever is necessary (although not necessarily planned) to get the job completed. Because plans must be altered quickly to accommodate changes in trends, styles, and attitudes, successful retail managers must be flexible. For example, successful chains of pre-
As the American economy continued in its slowdown over the first half-decade of the 21st century, many retailers were afraid to embrace new ideas. Instead of using their creative power to generate additional store traffic, many retailers either just continued doing things as they had always done them, cut costs without thinking about the impact on customer satisfaction, or copied what their competitors were doing. None of these actions enabled the retailer to actually differentiate itself from the competition. No wonder the late Stanley Marcus, the legendary chairperson emeritus of Neiman Marcus, always expected to see the following headline in the morning newspaper: "Shopper Found Dead in Local Store; Cause of Death—Boredom." He was pointing out that all retailers have access to the same merchandise; the important thing is to get customers excited about coming into their store. This is particularly true when customers enter stores with a negative attitude because they would rather be doing other things.

In addition, many students mistakenly assume that the arrival of a discount chain spells disaster for small-town retailers, because the local stores cannot compete on price. This is not the case if the retailer is able to use creativity to differentiate itself from the competition. One such case recently occurred in Burnaby, British Columbia.

Edmonds Appliance Centre, after studying the local market and the impact that discounters were having on its business, realized that most condominium owners in its trading area belonged to the Condominium Home Owners Association (CHOA) of British Columbia through their management company. As a result, Edmonds presented to CHOA a discount program for the condominium owners complete with an impressive, full-color brochure featuring prices 5 percent to 10 percent lower than Edmonds's best sale price. Each brochure contained an individualized membership card, which could be used only by members of the homeowners association and not by their friends or relatives.

Since the local retailer was going after the replacement market, they targeted condominiums that were 10 to 12 years old. Another unique feature of this program was that Edmonds’s competitors were unaware of this discount marketing program until it was fully established and the promotional material had been distributed. The program has been highly successful, and today the program accounts for $250,000 out of the retailer’s annual sales of $8 million.

Source: Based on “Promote Retail Excitement,” NARDA Independent Retailer, July 2001; used with the permission of NARDA (North American Retail Dealers Association).
Organization
Another important quality is the ability to establish priorities and plans and follow through to achieve these results. This prerequisite is organization. Retail managers are often forced to deal with many issues, functions, and projects at the same time. To achieve goals, the successful retailer must be a good time manager and set priorities when organizing personnel and resources.

Risk Taking
Retail managers should be willing to take calculated risks based on thorough analysis and sound judgment; they should also be willing to accept responsibility for the results. Success in retailing often comes from taking calculated risks and having the confidence to try something new before someone else does. For example, no one can say that Jeff Bezos’s decision to start Amazon and Sam Walton’s decision to start Wal-Mart were not without risk. All successful buyers have at one time or another purchased merchandise that could be labeled as losers. After all, if buyers never made errors they wouldn’t be taking risks and would probably pass up many winners. However, they must have the ability to recognize when they make a mistake.

Stress Tolerance
As the other prerequisites to retailing success suggest, retailing is a fast-paced and demanding career in a changing environment. The retailing leaders of the 21st century must be able to perform consistently under pressure and to thrive on constant change and challenge.

Dollars & Sense
Retail stores with store managers who possess the twelve prerequisite characteristics of successful retail managers will be more profitable.

Perseverance
Because of the difficult challenges that a retail career presents, it is important to have perseverance. All too often retailers become frustrated due to the many things they can’t control. For example, a blizzard may occur just before Christmas and wipe out the most important shopping days of the year. Others may become frustrated with fellow employees; the long hours, especially the weekends; or the inability to satisfy some customers. The person who has the ability to persevere and take all of this in stride will find an increasing number of career advancement opportunities.

Enthusiasm
Successful retailers must have a strong feeling of warmth for their job; otherwise they will convey the wrong image to their customers and department associates. Retailers today are training their sales force to smile even when talking to customers on the telephone “because it shows through in your voice.” Without enthusiasm, success in any field will elude you.
Chapter 1: Perspectives on Retailing

As we have seen, two of the prerequisites to success as a retail manager are analytical skills and creativity. These attributes also represent two methods for the study and practice of retailing.

**ANALYTICAL METHOD**

The analytical retail manager is a finder and investigator of facts. These facts are summarized and synthesized so a manager can make decisions systematically. In doing so, the manager uses models and theories of retail phenomena that enable him or her to structure all dimensions of retailing. An analytical perspective can result in a standardized set of procedures, success formulas, and guidelines.

Consider, for example, a manager operating a Starbucks coffee shop where everything is preprogrammed, including the menu, decor, location, hours of operation, cleanliness standards, customer service policies, and advertising. This store manager needs only to gather and analyze facts to determine if the preestablished guidelines are being met and to take appropriate corrective action if necessary.

**CREATIVE METHOD**

Conversely, the creative retail manager is an idea person. This retail manager tends to be a conceptualizer and has a very imaginative and fertile mind capable of creating a highly successful retail chain. A good example of this is Leslie Wexner, founder and chairman of The Limited. When everyone else in the mid-1960s thought he was crazy (including his father) for selling only a “limited” line of women’s apparel focusing on 18- to 35-year-old professional career women, Wexner had a gut feeling he was right. Such a retailer uses insight, intuition, and implicit knowledge rather than just facts. The result is usually a novel way to approach or solve a retail problem that reflects a deeper understanding of the market. Is it possible to operate a retail establishment, in most part, with just creativity? Yes. However, in the long run, creativity alone will not be adequate. Witness the problem of a slowdown in sales at the Body Shop, a retailer with a very creative pro-environment focus, as other firms, including The Limited, were able to copy its creative focus.¹⁸

**A TWO-PRONGED APPROACH**

As shown through the examples of our Starbucks manager and Leslie Wexner, retailing can indeed be practiced from both perspectives. The retailer who employs both approaches is more successful in the long run. Aren’t stores like Starbucks successful using only the analytical method? No. The Starbucks manager can operate analytically quite successfully. However, behind the franchisee is a franchisor who is creative as well as analytical. On the creative side was the development of name and logo. On the analytical side was the development of standardized layouts, fixtures, equipment, and employee training. It is the combination of the creative with the analytical that has made Starbucks what it is today.
The synthesis of creativity and analysis is necessary in all fields of retailing. Roger Dickinson, a former retail executive and now a retailing professor, has stated that “many successful merchandisers are fast duplicators rather than originators.” To decide who or what to duplicate requires not only creativity but also an analysis of the strategies that retailers are pursuing. This is an exercise in weighing potential returns against risks. Dickinson further states that “creativity in retailing is for the sake of increasing the sales and profits of the firm.” If creativity is tied to sales and profits, then one cannot avoid analysis; profit and sales statistics require analysis.

Retailers can’t do without either creative or analytical skills. We will attempt to develop your skills in both of these areas. At the outset, however, you should note that the analytical and creative methods for studying retailing are not that different. Whether you use creativity or analytical skills, they will be directed at solving problems.

A PROPOSED ORIENTATION

The approach to the study and practice of retailing reflected in this book is an outgrowth of the previous discussion. This approach has four major orientations: (1) environmental, (2) management planning, (3) profit, and (4) decision making.

Retailers should have an environmental orientation, which will allow them to anticipate and adapt contingently to external forces in the environment. Retailing is not static. With the social, legal, technological, economic, and other external forces always in flux, the modern retailer finds it necessary both to assess these changes from an analytical perspective and to respond with creative actions.

Retailers should have a planning orientation, which will help them to adapt systematically to a changing environment. A retailer who wants to have the competitive edge must plan today for the future. Exhibit 1.5 illustrates the problems facing a retailer that is reactive rather than proactive in its planning. Exhibit 1.5a shows the standard performance for a retailer’s plan: The plan is introduced, sales peak as competitors react to the plan, and finally the plan becomes obsolete. Exhibit 1.5b shows the old method of reacting to a competitor’s attack—the retailer tries to extend the sales peak by matching the competitor’s plan until another competitor makes both of their plans obsolete. Exhibit 1.5c shows why this text places special emphasis on the development of creative retail strategies. Here the retailer is proactive and already has another plan ready before either the market changes or the competition attacks its original plan.

Retailers also need a profit orientation, since all retail decisions will have an effect on the firm’s financial performance. The profit orientation will therefore focus on fundamental management of assets, revenues, and expenses. Management tools that show how to evaluate the profit impact of retail decisions will be discussed.

Retailers should have a decision-making orientation, which will allow them to focus on the need to collect and analyze data for making intelligent retail decisions. To aid in this process, executives need a retail information system to help program their operations for desired results.
THE BOOK OUTLINE

This book is composed of 14 chapters, each with its own study guide and application section. The chapters are intended to reinforce each other. The end-of-chapter materials provide a way to bring the real world into your studies by launching you into the kinds of situations you might face as a retail manager. Through careful analysis of this material and discussion with fellow students, you will discover retailing concepts that can be vividly retained because of the concrete context. Furthermore, this material will require you to think of yourself as a retail decision maker who must sometimes make decisions with less than perfect information.

INTRODUCTION TO RETAILING

This book is divided into four parts. The first part, Introduction to Retailing, has two chapters. In Chapter 2, Retail Strategic Planning and Operations Management, you will be exposed to the basic concepts of strategy, administration, and operations planning and management in retailing that will be used in the remaining chapters.

THE RETAILING ENVIRONMENT

The second part, the Retailing Environment, focuses on the external factors that the retailer faces in making everyday business decisions. The four chapters examine, in detail, the factors shown in Exhibit 1.1. Chapter 3, Retail Customers, looks at the behavior of the retail consumer and the socioeconomic environment. Chapter 4, Evaluating the Competition in Retailing, examines the behavior of competitors as well as the technological advances taking place in the market. Chapter 5, Managing the Supply Chain, focuses on the behavior of the various members of the supply chain and their effect on the retailer. Chapter 6, Legal and Ethical Behavior, analyzes the effect of the legal and ethical constraints on today’s retailer.
MARKET SELECTION AND LOCATION ANALYSIS

It has often been said that the three keys to success in retailing are location, location, and location. In Chapter 7, Market Selection and Retail Location Analysis, we discuss the various elements to consider in determining the feasibility of targeting a given market segment and entering a given retail market, and then we look at site selection.

MANAGING RETAIL OPERATIONS

In the fourth part, Managing Retail Operations, we discuss the merchandising operations of a retail firm. This part deals with the day-to-day decisions facing retailers. Chapter 8, Managing a Retailer’s Finances, discusses various financial statements, the key methods of valuing inventory, and the development of merchandise planning budgets by retailers. Chapter 9, Merchandise Buying and Handling, looks at how a retailer determines what to buy for its market and how these purchases are made. The appendix following Chapter 9 discusses the merchandising of apparel goods. Chapter 10, Merchandise Pricing, discusses the importance to the retailer of setting the correct price. In addition to the various markup methods used by retailers, the chapter also looks at markdown. Chapter 11, Advertising and Promotion, is devoted to a complete discussion of how a retailer can and should promote itself. Personal selling, along with services offered by retailers, is covered separately in Chapter 12, Customer Services and Retail Selling. Chapter 13, Store Layout and Design, discusses the impact of proper layout and design on retail performance. Chapter 14, Managing People, examines the role of the two most important people—customers and consumers—in the success of a retail firm.

The text concludes with a glossary of all major terms used in this text, as well as an index of the retailers mentioned.

SUMMARY

This chapter seeks to acquaint the reader with the nature and scope of retailing by discussing its impact on the economy, the types of retailers, and its prerequisites for success.

**What is retailing?**
Retailing consists of the final activities and steps needed to place a product in the hands of the ultimate consumer or to provide services to the consumer.

**Why is retailing always undergoing so much change?**
Retailing is not staid and stable; rather, it is an exciting business sector that effectively combines an individual’s skills to make a profit in an ever-changing market environment. That is why some retailers are successful and others, who are either unwilling or unable to adapt to this changing environment, fail.

**What are the various methods used to categorize retailers?**
Retailers can be classified in a variety of ways. Five of the more popular schemes are by NAICS code, number of outlets, margins versus turnover, location, and size. None, however, sheds adequate light on competition in retailing.
What is involved in a retailing career?
In the long run, a retailing career can offer a salary better than other careers, definite career advancement, and geographic mobility. In addition, a career in retailing incorporates the knowledge and use of all the business activities or disciplines (accounting, marketing, finance, personnel, economics, and even fashion). Besides, in retailing no two days are alike; each offers its own set of opportunities and problems. The prerequisites for success in retailing besides hard work include analytical skills, creativity, decisiveness, flexibility, initiative, leadership, organization, risk taking, stress tolerance, perseverance, and enthusiasm. These are all important, but it is especially vital for the retail manager to develop an attitude of openness to new ideas and a willingness to learn. After all, the market is always changing.

What are the different methods for the study and practice of retailing?
To be successful in retailing, an individual must use both analytical and creative methods of operation. The four proposed orientations to the study and practice of retailing in this text are an environmental orientation, which allows the retailer to focus on the continuously changing external forces affecting retailing; a planning orientation, which helps the retailer to adapt systematically to this changing environment; a profit orientation, which enables the retailer to examine the profit implications of any decision; and a decision-making orientation, which allows the retailer to focus on the need to collect and analyze data for making intelligent creative retail decisions.

TERMS TO REMEMBER

- retailing
- same-store sales
- market share
- scrambled merchandising
- category killer
- chain stores
- standard stock list
- optional stock list
- channel captain
- private label branding
- gross margin percentage
- gross margin
- operating expenses
- inventory turnover
- high-performance retailers
- low-margin/low-turnover retailer
- low-margin/high-turnover retailer
- high-margin/low-turnover retailer
- high-margin/high-turnover retailer

REVIEW AND DISCUSSION QUESTIONS

What is retailing?
1. Which of the following transactions is considered to be a retailing transaction according to the text’s definition? (a) a student buying an airline ticket on the Internet, (b) a retired farmer setting up a trust account at a local bank, (c) a student buying a Mother’s Day card, (d) a student purchasing from a classmate who is also a Mary Kay rep, and (e) an appliance repairperson coming to your home to fix a dishwasher.

Why is retailing always undergoing so much change?
2. Retailing is often said to be a stable and unchanging sector of the economy since a Subway, Dollar General, or Krispy Kreme shop seldom changes its...
layout or merchandise categories once it enters a market area. Agree or disagree and defend your answer.

3. Many environmental trends are taking place today that will have an effect on retailing operations over the next decade. Discuss three of these and their effects on retailing.

4. Currently there is a great deal of debate about the future impact of the Internet on retailing. Which of the following items—a vacation package for spring break, a wedding gift for a friend, a pair of jeans for yourself, or an end table for your apartment—would you be least likely to purchase online? Why?

**LO 3**

Describe the five methods used to categorize retailers.

5. How can a retailer operate with a high-margin/high-turnover strategy? Won’t customers avoid this type of store and shop at a low-margin store?

6. Agree or disagree with the following statement and explain your reasoning: “Only locally owned retailers, and not large chains, can tailor their merchandise to the needs of their target market.”

**LO 4**

What is involved in a retailing career?

7. What concepts and/or techniques from economics and/or accounting do you believe would be most useful in retail decision making?

8. Twelve prerequisites for success were given. Which one(s) do you think is (are) the most important? Why? Which ones do you think you already possess? Which ones do you think you need to improve?

**LO 5**

Be able to explain the different methods for the study and practice of retailing.

9. An individual who is both creative and analytical will definitely succeed in retailing. Do you agree or disagree with this statement? Defend your position.

10. Visit a local retailer whom you would describe as creative and seek to determine which analytical skills that retailer also possesses.

**SAMPLE TEST QUESTIONS**

**LO 1**

Retailing

a. may be defined as any cash purchase for merchandise
b. is the same the world over
c. is the final move in the flow of merchandise from producer to consumer
d. is the sale of an item by the manufacturer to a wholesaler
e. is not necessary to produce economic growth

**LO 2**

Which of the following words is descriptive of the retailing industry?

a. changing
b. stagnant
c. unexciting
d. staid
e. boring
Which of the following is not one of the ways by which retailers are categorized?

a. number of outlets  
b. size  
c. margin versus turnover  
d. location  
e. gender of the manager

Which of the following characteristics is not desirable for a retail manager to possess?

a. stress tolerance  
b. indecisiveness  
c. creativity  
d. leadership  
e. enthusiasm

A convenience store manager is considering whether or not to offer HMRs (homemade meal replacements), which are “homemade” meals that customers can purchase on their way home from work. These meals require only heating in a microwave once the consumer gets home. The manager has gathered information on demographics, competitors’ sales in the trading area, and quality of HMR products that are available for her to sell. The manager was employing the ______ method of retail decision making.

a. fact-based  
b. strategic  
c. numerical  
d. analytical  
e. tactical

**WRITING AND SPEAKING EXERCISE**

Halfway between your apartment and the campus is a small convenience store where you regularly purchase a cup of coffee to get ready for those early morning classes. Over the last two years, you have become friends with the owner. Late last night when you filled up your gas tank, you noticed that he was still there working on his books. While visiting with you, he states that the store has been profitable, but he feels it could do better if he could lower the high rate of employee turnover. He asks you for advice on this problem.

Prepare a short presentation for the owner listing what you think he should look for in hiring part-time employees. Also, list what employee traits he should seek to avoid.

**RETAIL PROJECT**

You might use the Internet to purchase your next car. Using the search engine on either your own computer or one at school, select two or three different auto Web sites. List their site address, such as http://www.autobytel.com, and make a report describing what they have on their Web site. Which one do you like best? Why? Can you purchase online from each Web site? What is the buying process? Can com-
petitors gain anything from looking at these Web sites? Finally, what is missing from these sites that you feel should be on them?

**PLANNING YOUR OWN RETAIL BUSINESS**

If you think you might want to be a retail entrepreneur, you can use the “Planning Your Own Retail Business” computer exercises at the end of each chapter to assist you in this process. In addition, this text’s Web site, http://dunne.swlearning.com, has an exercise called “The House: Understanding A Retail Enterprise Using Spreadsheet Analysis,” which can be used to help you understand the dollars and cents of retailing.

This first exercise is intended to acquaint you with how sensitive your retail business will be to changes in sales volume. Let’s assume that you plan that your retail business will generate $500,000 per year in annual sales and that it will operate on a gross margin return on sales of 34 percent. If your fixed operating expenses are $90,000 annually and variable operating costs are 10 percent of sales, how much profit will you make? (Hint: Sales × Gross margin return on sales = Gross margin; Gross margin – Fixed operating expenses – Sales × Variable operating expenses as a % of sales = Net profit.) Use a spreadsheet program on your computer to compute your firm’s net profits; next analyze what happens if sales drop 10 percent and if sales rise 10 percent. Why are bottom line results (net profits) so sensitive to changes in sales volume?

**ENDNOTES**

2. Ibid.
6. Ibid.
9. From a list compiled by Robert Kahn.
15. Stanley Marcus in a speech to the Spring ACRA Meeting, Dallas, TX, April 17, 1993.
20. Ibid.